

TOWN OF KELLYVILLE, OKLAHOMA

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

RALPH OSBORN
Certified Public Accountant
500 South Chestnut
Bristow, Oklahoma 74010

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the Board of Trustees
Town of Kellyville, Oklahoma

I have audited the accompanying financial statements of the Town of Kellyville, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Kellyville's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on our audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Kellyville as of June 30, 2014, and the respective changes in financial position - modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note A.

Basis of Accounting

I draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated July 28, 2015, on my consideration of Town of Kellyville's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Kellyville, Oklahoma's internal control over financial reporting and compliance.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
July 28, 2015

TOWN OF KELLYVILLE, OKLAHOMA
STATEMENT OF NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2014

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business</u>	
	<u>Activities</u>	<u>Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 53,394	\$ 36,936	\$ 90,330
Total current assets	<u>53,394</u>	<u>36,936</u>	<u>90,330</u>
Restricted assets:			
Cash - debt service	-	12,659	12,659
Cash - reserve	-	65,362	65,362
Cash - Webco Escrow	-	51,766	51,766
Total restricted assets	<u>-</u>	<u>129,787</u>	<u>129,787</u>
Non-current assets:			
Capital assets			
Land	24,700	-	24,700
Other capital assets net of Accumulated depreciation	<u>824,689</u>	<u>2,067,677</u>	<u>2,892,366</u>
Total non-current assets	<u>849,389</u>	<u>2,067,677</u>	<u>2,917,066</u>
Total assets	<u>902,783</u>	<u>2,234,400</u>	<u>3,137,183</u>
LIABILITIES			
Current liabilities:			
Utility deposits	-	7,820	7,820
Capital lease obligation	8,409	-	8,409
Notes payable	-	35,000	35,000
Total current liabilities	<u>8,409</u>	<u>42,820</u>	<u>51,229</u>
Non-current liabilities:			
Capital lease obligation	27,191	-	27,191
Notes payable	-	1,116,667	1,116,667
Total non-current liabilities	<u>27,191</u>	<u>1,116,667</u>	<u>1,143,858</u>
Total liabilities	<u>35,600</u>	<u>1,159,487</u>	<u>1,195,087</u>
NET ASSETS			
Invested in capital assets, net related debt	813,789	916,010	1,729,799
Restricted for debt service	-	78,021	78,021
Restricted for Webco Escrow	-	51,766	51,766
Unrestricted	<u>53,394</u>	<u>29,116</u>	<u>82,510</u>
Total net assets	<u>\$ 867,183</u>	<u>\$ 1,074,913</u>	<u>\$ 1,942,096</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF KELLYVILLE, OKLAHOMA
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2014

Function/Programs	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expenses) Revenue</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities					
General government	\$ 277,236	\$ -	\$ 9,543	\$ -	\$ (267,693)
Public safety	207,544	60,294	-	-	(147,250)
Street	41,519	-	10,943	-	(30,576)
Culture and education	52,732	-	8,068	-	(44,664)
Parks and recreation	7,485	-	-	-	(7,485)
Legal	10,858	-	-	-	(10,858)
Cemetery	47,320	7,715	-	-	(39,605)
Total governmental activities	<u>644,694</u>	<u>68,009</u>	<u>28,554</u>	<u>-</u>	<u>(548,131)</u>
Business-type activities					
Sanitation	55,167	72,101	-	-	16,934
Wastewater	<u>160,802</u>	<u>114,832</u>	<u>-</u>	<u>-</u>	<u>(45,970)</u>
Total business-type activities	<u>215,969</u>	<u>186,933</u>	<u>-</u>	<u>-</u>	<u>(29,036)</u>
Total primary government	<u>\$ 860,663</u>	<u>\$ 254,942</u>	<u>\$ 28,554</u>	<u>\$ -</u>	<u>\$ (577,167)</u>

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in net assets:			
Net (expense) revenue	\$ (548,131)	\$ (29,036)	\$ (577,167)
General revenues			
Taxes			
Sales/use tax	450,275	-	450,275
Franchise	39,827	-	39,827
Other	5,527	-	5,527
Interest	147	723	870
Insurance proceeds	54,239	-	54,239
Transfers	<u>(11,316)</u>	<u>11,316</u>	<u>-</u>
Total general revenue and transfers	<u>538,699</u>	<u>12,039</u>	<u>550,738</u>
Change in net assets	(9,432)	(16,997)	(26,429)
Net assets - beginning	<u>876,615</u>	<u>1,091,910</u>	<u>1,968,525</u>
Net assets - ending	<u>\$ 867,183</u>	<u>\$ 1,074,913</u>	<u>\$ 1,942,096</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF KELLYVILLE, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 53,394	\$ 53,394
TOTAL ASSETS	<u>\$ 53,394</u>	<u>\$ 53,394</u>
LIABILITIES AND FUND BALANCES		
FUND BALANCES		
Nonspendable	53,394	53,394
Unassigned	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u>53,394</u>	<u>53,394</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 53,394</u>	<u>\$ 53,394</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF KELLYVILLE, OKLAHOMA
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
WITH THE STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2014

Total fund balance \$ 53,394

Amounts reported in the statement of net assets
are different because:

Capital assets used in governmental activities
are not financial resources and therefore are
not reported as assets in governmental funds.

Land	24,700	
Capital assets	1,425,831	
Accumulated depreciation	<u>(601,142)</u>	849,389

Long-term liabilities are not due and payable
in the current period and therefore are not
reported as liabilities in the fund. Long-term
liabilities at year end consist of:

Lease obligation	<u>(35,600)</u>
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Total net assets	<u><u>\$ 867,183</u></u>
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The accompanying notes are an integral part of this financial statement.

TOWN OF KELLYVILLE, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Total Governmental Funds
Revenue		
Sales/use tax	\$ 450,275	\$ 450,275
Franchise tax	39,827	39,827
Gasoline and auto tax	10,943	10,943
Alcoholic beverage tax	6,366	6,366
Cigarette tax	3,177	3,177
Fire revenue	26,130	26,130
Cemetery services	5,000	5,000
Cemetery lot sales	2,715	2,715
License and permits	1,263	1,263
Intergovernmental	8,068	8,068
Fines and forfeits	34,164	34,164
Donations	1,495	1,495
Insurance proceeds	54,239	54,239
Other	2,769	2,769
Interest	147	147
Total revenue	<u>646,578</u>	<u>646,578</u>
Expenditures		
Current		
General government	273,362	273,362
Public safety	176,336	176,336
Street	38,314	38,314
Culture and education	46,075	46,075
Legal	10,858	10,858
Cemetery	47,320	47,320
Parks and recreation	7,485	7,485
Total expenditures	<u>599,750</u>	<u>599,750</u>
Excess(deficiency) of revenue over expenditures	<u>46,828</u>	<u>46,828</u>
Other financing sources (uses)		
Transfer in (out)	<u>(11,316)</u>	<u>(11,316)</u>
Total other financing sources (uses)	<u>(11,316)</u>	<u>(11,316)</u>
Net change in fund balance	35,512	35,512
Fund balances, beginning	<u>17,882</u>	<u>17,882</u>
Fund balances, ending	<u>\$ 53,394</u>	<u>\$ 53,394</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF KELLYVILLE, OKLAHOMA
STATEMENT OF FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
JUNE 30, 2014

	<u>Public Works</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 36,936
Total current assets	<u>36,936</u>
Restricted assets:	
Cash-debt service	12,659
Cash-reserve	65,362
Cash-Webco escrow	<u>51,766</u>
Total restricted assets	<u>129,787</u>
Non-current assets	
Capital assets:	
Capital assets, net of accumulated depreciation	<u>2,067,677</u>
Total non-current assets	<u>2,067,677</u>
Total assets	<u>2,234,400</u>
LIABILITIES	
Current liabilities:	
Utility deposits	7,820
Notes payable	<u>35,000</u>
Total current liabilities	<u>42,820</u>
Non-current liabilities:	
Notes payable	<u>1,116,667</u>
Total non-current liabilities	<u>1,116,667</u>
Total liabilities	<u>1,159,487</u>
NET ASSETS	
Invested in capital assets, net relate debt	916,010
Restricted for debt service	78,021
Restricted for Webco escrow	51,766
Unrestricted	<u>29,116</u>
Net assets of business-type activities	<u>\$ 1,074,913</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF KELLYVILLE, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
MODIFIED CASH BASIS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Public Works</u>
<u>OPERATING REVENUES</u>	
Charges for services:	
Wastewater charges	\$ 97,619
Sanitation charges	82,049
Penalty	6,624
Other	<u>641</u>
Total operating revenues	<u>186,933</u>
<u>OPERATING EXPENSES</u>	
Personal services	3,316
Sanitation contractor	58,809
Maintenance and supplies	585
Lab fees	10,725
Repair and Maintenance	10,780
Permits	944
Professional fees	2,393
Office	4,071
Other	5,541
Utilities	8,960
Depreciation	<u>62,701</u>
Total operating expenses	<u>168,825</u>
Operating income (loss)	<u>18,108</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>	
Investment income	723
Interest and fees on notes payable	<u>(47,144)</u>
Total non-operating revenue (expenses)	<u>(46,421)</u>
Income before transfers	<u>(28,313)</u>
Transfer in (out)	<u>11,316</u>
Change in net assets	(16,997)
Total net assets, beginning	<u>1,091,910</u>
Total net assets, ending	<u><u>\$ 1,074,913</u></u>

The accompanying notes are an integral part of this financial statement.

TOWN OF KELLYVILLE, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Public Works</u>
Cash flows from operating activities	
Cash received from customers	\$ 186,933
Cash payments to employees	(3,316)
Cash payments to suppliers for goods and services	<u>(102,808)</u>
Net cash provided (used) by operating activities	<u>80,809</u>
Cash flows from non-capital financing activities	
Transfer from other funds	<u>11,316</u>
Net cash provided by non-capital financing activities	<u>11,316</u>
Cash flows from capital and related financing activities	
Principal paid on notes payable	(34,999)
Interest paid on notes payable and fiscal fees	<u>(47,144)</u>
Net cash used for capital and related financing activities	<u>(82,143)</u>
Cash flows from investing activities	
Interest revenue	<u>723</u>
Net cash provided by investing activities	<u>723</u>
Net increase/(decrease) in cash and cash equivalents	10,705
Cash and cash equivalents, beginning	<u>156,018</u>
Cash and cash equivalents, ending	<u><u>\$ 166,723</u></u>
Reconciliation of operating income	
(Loss) to net cash provided by	
(Used) by operating activities	
Operating income (loss)	\$ 18,108
Adjustments to reconcile operating income	
to net cash used by operating activities:	
Depreciation	<u>62,701</u>
Net cash provided by operating activities	<u><u>\$ 80,809</u></u>

The accompanying notes are an integral part of this financial statement.

TOWN OF KELLYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Kellyville, Oklahoma, was incorporated under the provisions of the laws of the State of Oklahoma. The Town operates under a Board of Trustees form of government and provides the following services: general government, public safety, public works, parks and recreation. The basic financial statements include the departments, agencies, and other organizational units over which the Board of Trustees exercise oversight responsibility. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 and No. 39. Based on the criteria the Kellyville Public Works Authority (the Authority) is the only component unit. The definition of the financial reporting entity is primarily based on the concept of financial accountability. The financial reporting entity consists of the primary government (the Town), and activities for which the primary government is financially accountable, and the activities of the Authority. Financial accountability exists if a primary government appoints a voting majority of an organizations governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide a specific financial benefit to, or impose specific financial burdens on, the primary government. Based upon the application of these criteria, there are no other entities to include in the Town financial statements.

Kellyville Public Works Authority was created under the provisions of Title 60, Sections 176 to 180, Oklahoma Statutes. The Authority is managed by a Board of Trustees made up of members of the Town Board of Trustees. The Authority operates sanitation and sewer services for the Town of Kellyville.

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Town as a whole excluding fiduciary activities such as employee pension plans. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Town general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A functional program is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Town services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these programs uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

TOWN OF KELLYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Fund Financial Statements

Fund financial statements of the Town are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Town are prepared in accordance with the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, and which is a change from the prior year. The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Town's reporting entity does not apply FASB pronouncements or ABP opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the cash basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to Town departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of Town component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified cash basis of accounting. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported in proprietary fund financial statements include revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed.

TOWN OF KELLYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

FUND TYPES AND MAJOR FUNDS

The Town reports the following major governmental funds:

General Fund - The general fund reports as the primary fund of the Town. This fund is used to account for all financial resources not reported in other funds.

Proprietary Funds - The Town reports the following major enterprise funds:

Public Works Authority - The Authority provides certain utility services for the Town.

Budgetary Accounting and Control

The Mayor submits an annual budget to the Board of Trustees in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Board of Trustees for review, and public hearings are held to address priorities and allocation of resources. In June, the Board of Trustees adopts the annual fiscal year budgets for the Town operating funds. Once approved, the Board of Trustees may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Public trusts submit budgets and other planning documents to their respective governing bodies.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by sources. Expenditures are budgeted by department and class as follows: Personal services, other services and charges, supplies, capital outlay, transfers, and debt service. Budget revisions at this level are subject to final review by the Board of Trustees. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without Board approval.

The budgets for the governmental funds and proprietary fund operations are prepared on the cash basis. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be paid. The budget and actual financial statements are reported on this basis. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

Investments

The Town follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The Town considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances.

TOWN OF KELLYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary funds and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis. The Town has not maintained inventory records, however, the value of inventory on hand at June 30, 2014 is not believed to be material.

Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide and fund financial statements. Under the modified cash basis of accounting, prepaids are not reported. The expense is included in the period the liability is paid.

Capital Assets, Depreciation, and Amortization

The Town's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported and comprehensively reported in the government-wide financial statements. The Town maintains infrastructure assets records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component units financial statements. Donated assets are stated at fair value on the date donated. The Town generally capitalizes assets with cost of \$2,500 or more as purchase and construction outlay occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	5-60
Improvements, other than buildings	2-50
Mobile equipment	3-40
Furniture , machinery, and equipment	3-30
Utility system	5-60

Compensated Absences

Full-time, permanent employees are granted personal leave in varying amounts to specified maximums depending on tenure with the Town. Under the modified cash basis of accounting, no accruals are recorded for compensated absences.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

TOWN OF KELLYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the Town will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Town, and are held by counterparty or the counterparty's trust department but not in the name of the Town. The Town's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2014, all of the Town's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The Town had deposits at financial institutions with a carrying amount of approximately \$220,117 at June 30, 2014. The bank balance of the deposits at June 30, 2014 was approximately \$228,211.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Town did not have fixed income securities at June 30, 2014.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Trustees monitors the investment performance on an ongoing basis to limit the Town's interest rate risk. As of June 30, 2014, the Town's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE C - RESTRICTED CASH

The Authority has reported the following as restricted cash:

Debt service	\$ 12,659
Reserve	65,362
Webco escrow	51,766
Total	<u>\$ 129,787</u>

The debt service and reserve funds are held by a trustee bank in conjunction with the note payable listed in Note E. The debt service money is limited to use in retiring note principal and paying note interest.

TOWN OF KELLYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Webco Industries, Inc., a local business, has donated funds to the Authority in the amount of \$135,000. These funds were required to be placed in an escrow account which earns interest and is to be distributed into the Authority's operating fund at a rate of \$2,000 per month until fully distributed. The balance of the escrow funds at June 30, 2014 was \$51,766.

Note D - CAPITAL ASSETS

The following table provides a summary of changes in capital assets:

	<u>CAPITAL ASSETS, DEPRECIATED</u>				<u>Capital Assets Not Depreciated</u>
	<u>Buildings</u>	<u>Infrastructure & Improvements Other Than Buildings</u>	<u>Furniture, Machinery, And Equipment</u>	<u>Totals</u>	<u>Land</u>
PRIMARY GOVERNMENT					
Governmental activities					
Balance, June 30, 2013	\$ 708,196	\$ 13,650	\$ 668,385	\$ 1,390,231	\$ 24,700
Increases	-	-	35,600	35,600	-
Decreases	-	-	-	-	-
Balance, June 30, 2014	<u>708,196</u>	<u>13,650</u>	<u>703,985</u>	<u>1,425,831</u>	<u>24,700</u>
Accumulated Depreciation					
Balance, June 30, 2013	194,824	13,650	347,724	556,198	
Increase	11,983	-	32,961	44,944	
Decreases	-	-	-	-	
Balance, June 30, 2014	<u>206,807</u>	<u>13,650</u>	<u>380,685</u>	<u>601,142</u>	
Governmental activities					
Capital Assets, Net	<u>\$ 501,389</u>	<u>\$ -</u>	<u>\$ 323,300</u>	<u>\$ 824,689</u>	<u>\$ 24,700</u>
Business-type activities					
Balance, June 30, 2013	\$ -	\$ 2,957,215	\$ 51,147	\$ 3,008,362	\$ -
Increases	-	-	-	-	-
Decreases	-	-	-	-	-
Balance, June 30, 2014	<u>-</u>	<u>2,957,215</u>	<u>51,147</u>	<u>3,008,362</u>	<u>-</u>
Accumulated Depreciation					
Balance, June 30, 2013	-	844,092	33,892	877,984	
Increase	-	60,533	2,168	62,701	
Decreases	-	-	-	-	
Balance, June 30, 2014	<u>-</u>	<u>904,625</u>	<u>36,060</u>	<u>940,685</u>	
Business-type Activities					
Capital Assets, Net	<u>\$ -</u>	<u>\$ 2,052,590</u>	<u>\$ 15,087</u>	<u>\$ 2,067,677</u>	<u>\$ -</u>
PRIMARY GOVERNMENT					
Capital Assets, Net	<u>\$ 501,389</u>	<u>\$ 2,052,590</u>	<u>\$ 338,387</u>	<u>\$ 2,892,366</u>	<u>\$ 24,700</u>

DEPRECIATION EXPENSE

Depreciation expense was charged to functions of the primary government as follows:

GOVERNMENT ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
General Government	\$ 3,874	Wastewater	\$ 62,701
Public Safety	31,208		
Street	3,205		
Culture and education	6,657		

TOWN OF KELLYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note E - PROPRIETARY FUND BONDS AND NOTES PAYABLE

On December 30, 2007, the Authority issued revenue bonds in the amount of \$950,000 for the purpose of providing advanced refunding of the 2003 Revenue Bonds and construction costs related to waste water system improvements. The 2007 Revenue Bonds are secured by a pledge of the gross revenues derived from the Authority's operation of the Utility system, all rights, titles and interest of the Authority in and to the Utility system, and all funds and accounts created by the bond indenture. Interest on the 2007 Revenue Bonds is payable semiannually on June 1 and December 1. The bond redemption occurs annually and began on December 1, 2008, continuing for thirty years. The balance of the bond at June 30, 2014 was \$860,000.

During fiscal year 2008, the Authority entered into a zero percent note payable through the Oklahoma Department of Commerce for the amount of \$400,000 payable in monthly payments of \$1,667 beginning in March of 2009. The balance of this note at June 30, 2014 was \$291,667.

The following is a summary of bonds and notes payable transactions for the year ended June 30, 2014.

	<u>Payable at July 1, 2013</u>	<u>Addition/ Retirements</u>	<u>Balance at June 30, 2014</u>
2007 Revenue Bond Payable	\$ 875,000	\$ (15,000)	\$ 860,000
Ok Department of Commerce	<u>311,666</u>	<u>(19,999)</u>	<u>291,667</u>
Total	<u>\$ 1,186,666</u>	<u>\$ (34,999)</u>	<u>\$ 1,151,667</u>

Principal and interest payments to retire the bond and note are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 35,000	\$ 45,431	\$ 80,431
2015	40,000	44,600	84,600
2016	40,000	43,650	83,650
2017	40,000	42,700	82,700
2018	40,000	41,750	81,750
2019-2023	220,000	191,100	411,100
2024-2028	251,667	152,950	404,617
2029-2033	205,000	103,358	308,358
2034-2037	<u>280,000</u>	<u>35,775</u>	<u>315,775</u>
Total	<u>\$1,151,667</u>	<u>\$ 701,314</u>	<u>\$1,852,981</u>

The Authority paid interest in the amount of \$46,144 and fees in the amount of \$1,000 on its outstanding note during the fiscal year.

TOWN OF KELLYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note F - CAPITAL LEASES

The Town has entered into lease agreements as lessee for financing the acquisition of equipment. The lease agreement qualifies as capital leases for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments. The lease contains a clause which gives the Town and Authority the ability to terminate the lease agreement at the end of each fiscal year.

Capital lease transactions for the year ended June 30, 2014 are as follows:

Payable at July 1, 2012	Additions	Retirements	Balance at June 30, 2013
\$ 4,956	\$ -	\$ 4,956	\$ -
<u>\$ 4,956</u>	<u>\$ -</u>	<u>\$ 4,956</u>	<u>\$ -</u>

The schedule of future minimum lease payments under the capital leases and the present value of the net minimum lease payments at June 30, is as follows:

Year Ending June 30	Police Cars	Total
2015	9,762	9,762
2016	9,762	9,762
2017	9,762	9,762
2018	<u>9,762</u>	<u>9,762</u>
Total minimum lease payment	39,048	39,048
Less: Amount representing interest	<u>3,448</u>	<u>3,448</u>
Total	<u>\$ 35,600</u>	<u>\$ 35,600</u>

Note G - PENSION OBLIGATIONS

The Town participates in one pension plan.

Oklahoma Firefighter's Pension and Retirement System

The Town participates in this statewide, cost-sharing, multiple-employer benefit plan on behalf of firefighters. The system is administered by an agency of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

	<u>Oklahoma Firefighter's Pension And Retirement System</u>
Eligibility to Participate	All full-time or voluntary Firefighters of a participating Municipality hired before age 45
Authority establishing contribution obligations and benefit provisions	State Statute

TOWN OF KELLYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Plan members' contribution rate	8% of covered payroll
Town's contribution rate	13% of covered payroll/\$60 per volunteer
Period required to vest	10 years
Benefits and eligibility for distribution (full time)	20 years credited service, 2 ½% Of final average salary multiplied By the years of credited service with A maximum of 30 years considered; If vested, at or after age 50, or After 10 but before 20 years of Credited service, with reduced benefits
Benefits and eligibility for distribution (Volunteer)	20 years credited service equal to \$5.46 per month per year of service With a maximum of 30 Years considered
Deferred retirement option	Yes, 20 years credited service with Continued service for 30 or more years
Provisions for:	
Cost of living adjustments (normal retirement)	Yes, if vested by 5/83
Death (duty, non-duty, post-retirement)	Yes
Disability	Yes
Cost of living allowances	Yes

Contributions required by State Statute:

Fiscal Year	Required Contribution	Percentage Contributed
2014	\$ 900	100%
2013	1,620	100%
2012	540	100%

Note H - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note I - FEDERAL AND STATE GRANTS

In the normal course of operations, the Town receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of the funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Note J - SUBSEQUENT EVENTS

Management has evaluated subsequent events and contingencies through July 28, 2015, the date which financial statements were available. The Town believes there are no events requiring disclosure

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the Board of Trustees
Town of Kellyville
Kellyville, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Kellyville, Oklahoma, modified cash basis, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Kellyville's basic financial statements and have issued my report thereon dated July 28, 2015 which did not include Management's Discussion and Analysis or a Budgetary Comparison.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Town of Kellyville's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Kellyville's internal control. Accordingly, I do not express an opinion of the effectiveness of Town of Kellyville's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal controls that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider exceeding the approved budget in the general fund to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Kellyville, Oklahoma's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The general fund actual expenses exceeded the respective approved expenditure budget. The town failed to approve a supplemental budget for the additional expenditures when they had sufficient revenue to do so.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
July 28, 2015